



THE FUTURE OF 911 FUNDING

Presentation to the
NCSL Task Force on State and Local Taxation

Salt Lake City, UT
January 8, 2016

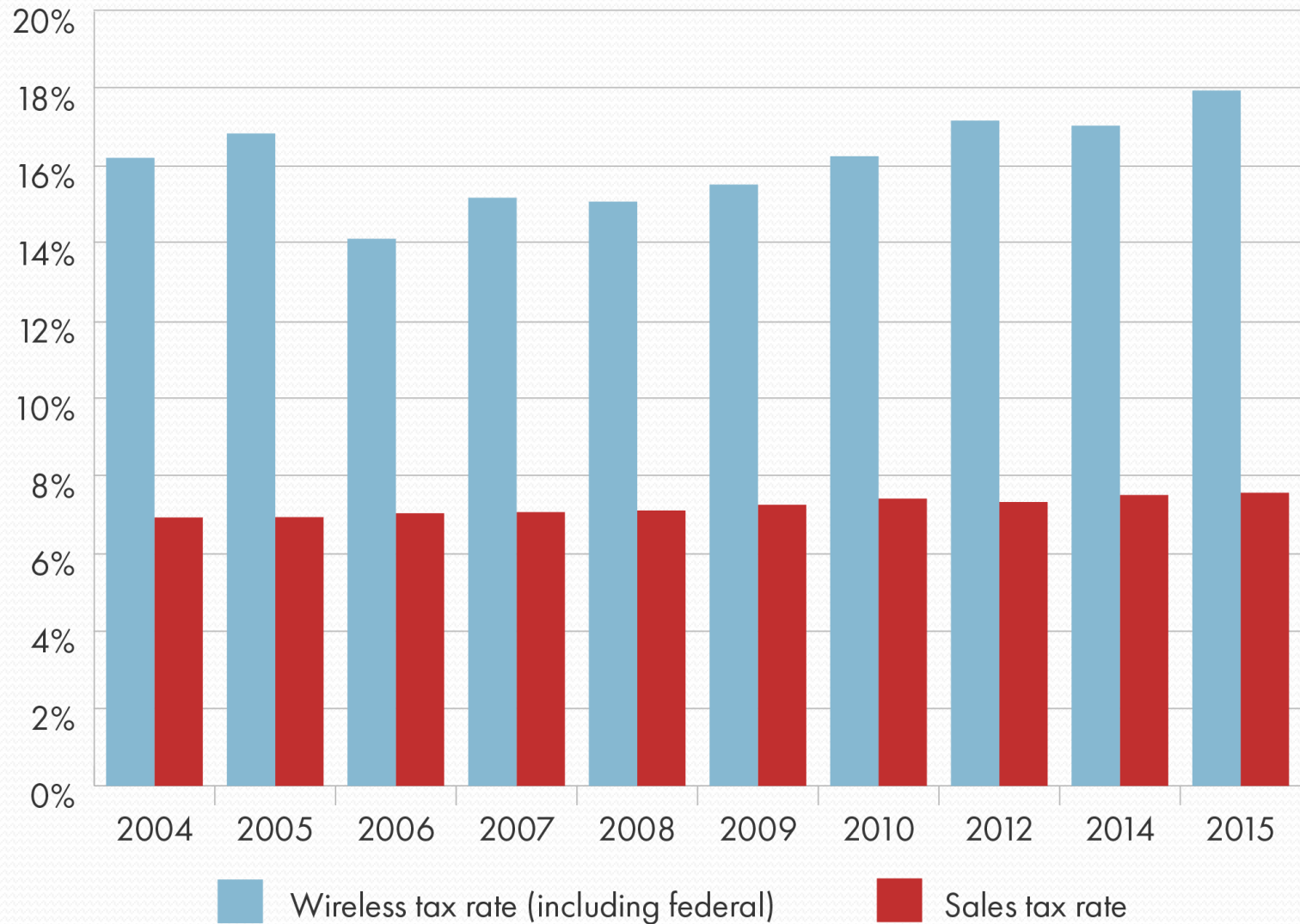
Scott Mackey
KSE Partners LLP

Kathleen Kittrick
Verizon

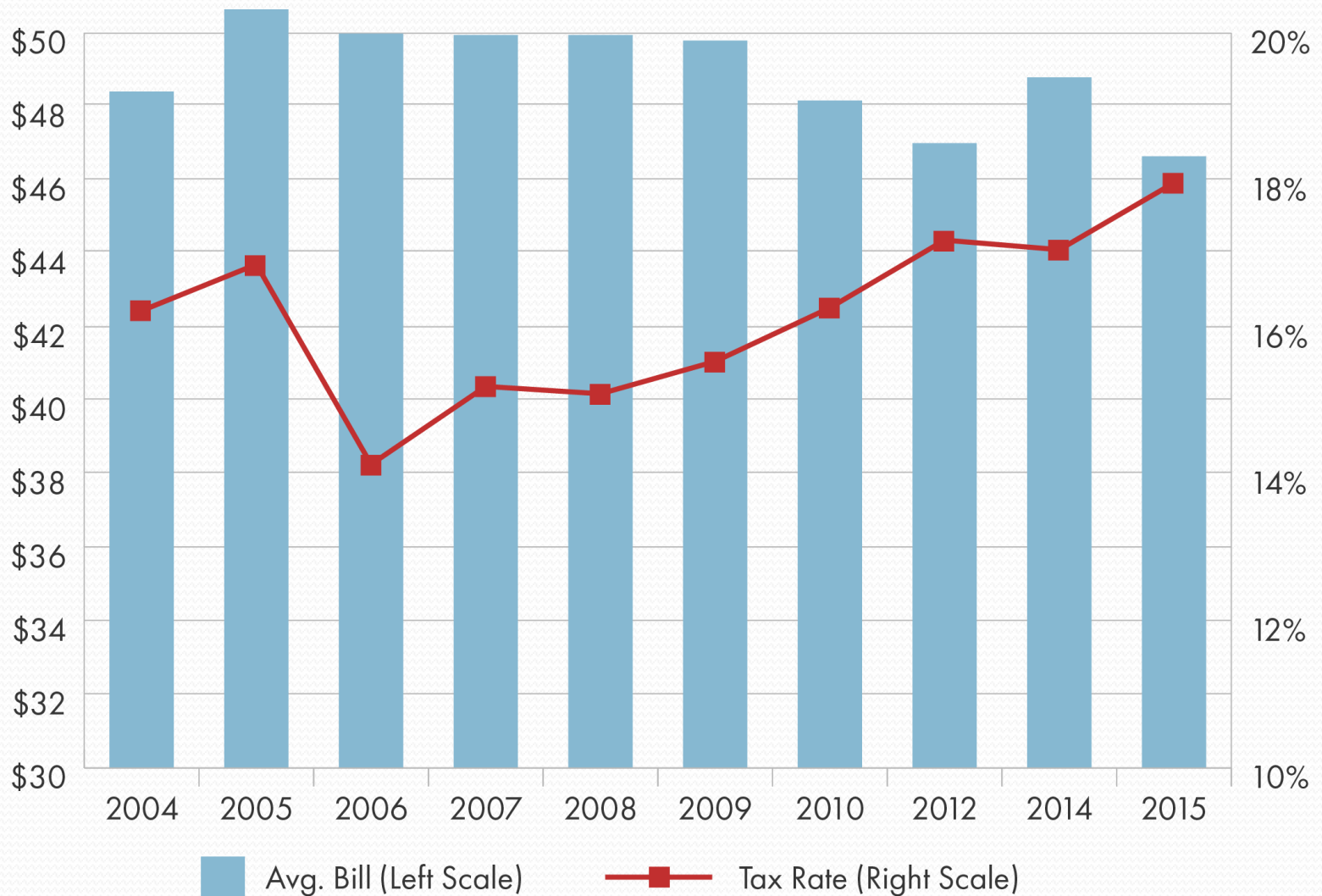
Overview

- Overview of wireless consumer taxes & fees
- Trends in 911 funding, 911fees, and funding pressures
- CTIA 911 funding principles
- Is it time to consider other 911 funding sources?

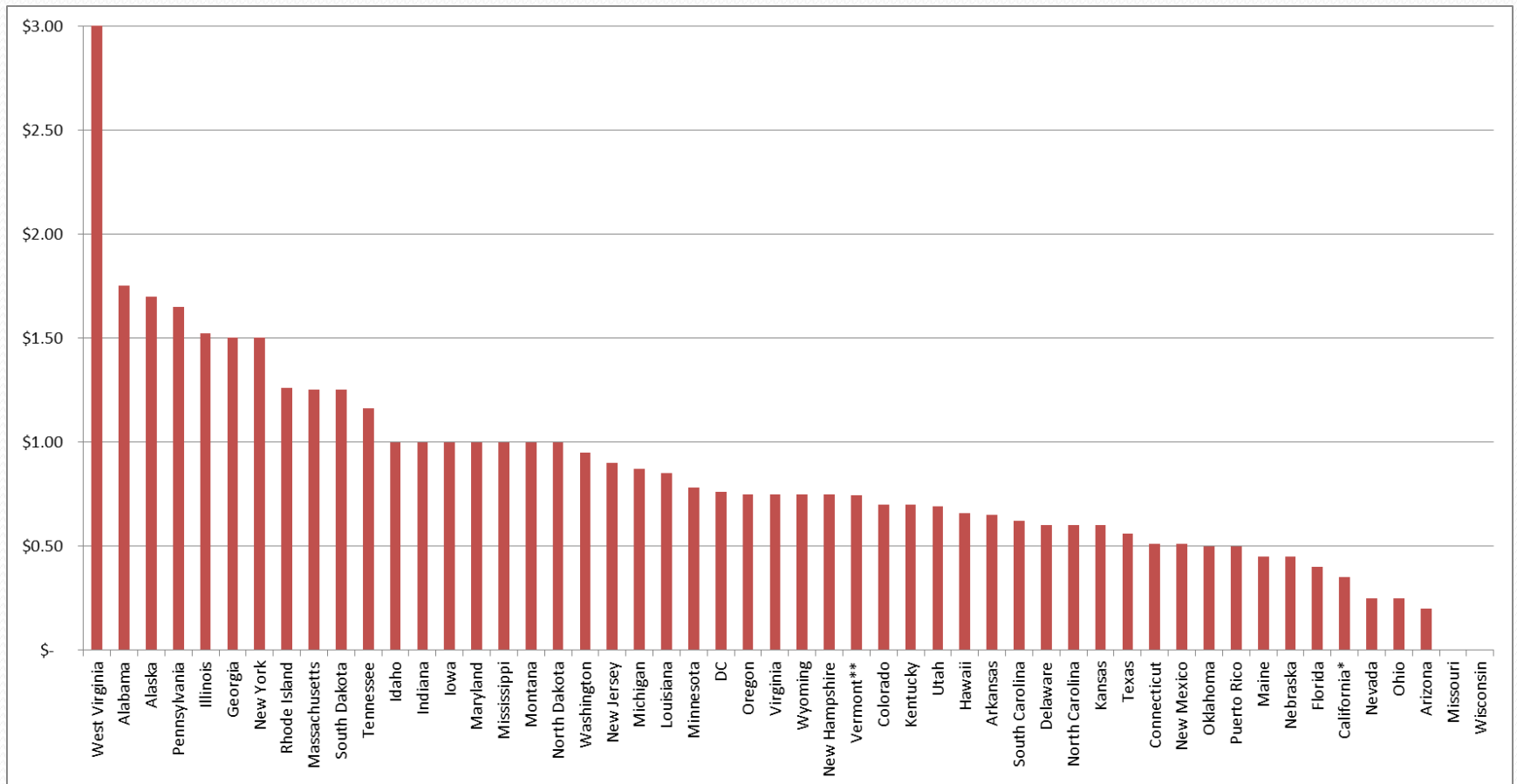
Federal/State/Local Average Wireless Tax Rates vs. Sales Tax Rates, 2004–2015



Federal/State/Local Average Wireless Tax Rates vs. Average Bill, 2004–2015



911 Fees by State, January 2015



911 Fee Increases Since 1/1/2015

Implemented Fee Increase

Kansas

Indiana

Illinois

Massachusetts

New Hampshire

Pennsylvania

Tennessee

Proposed Fee Increase

Georgia

Kentucky

Mississippi

Missouri

Oregon

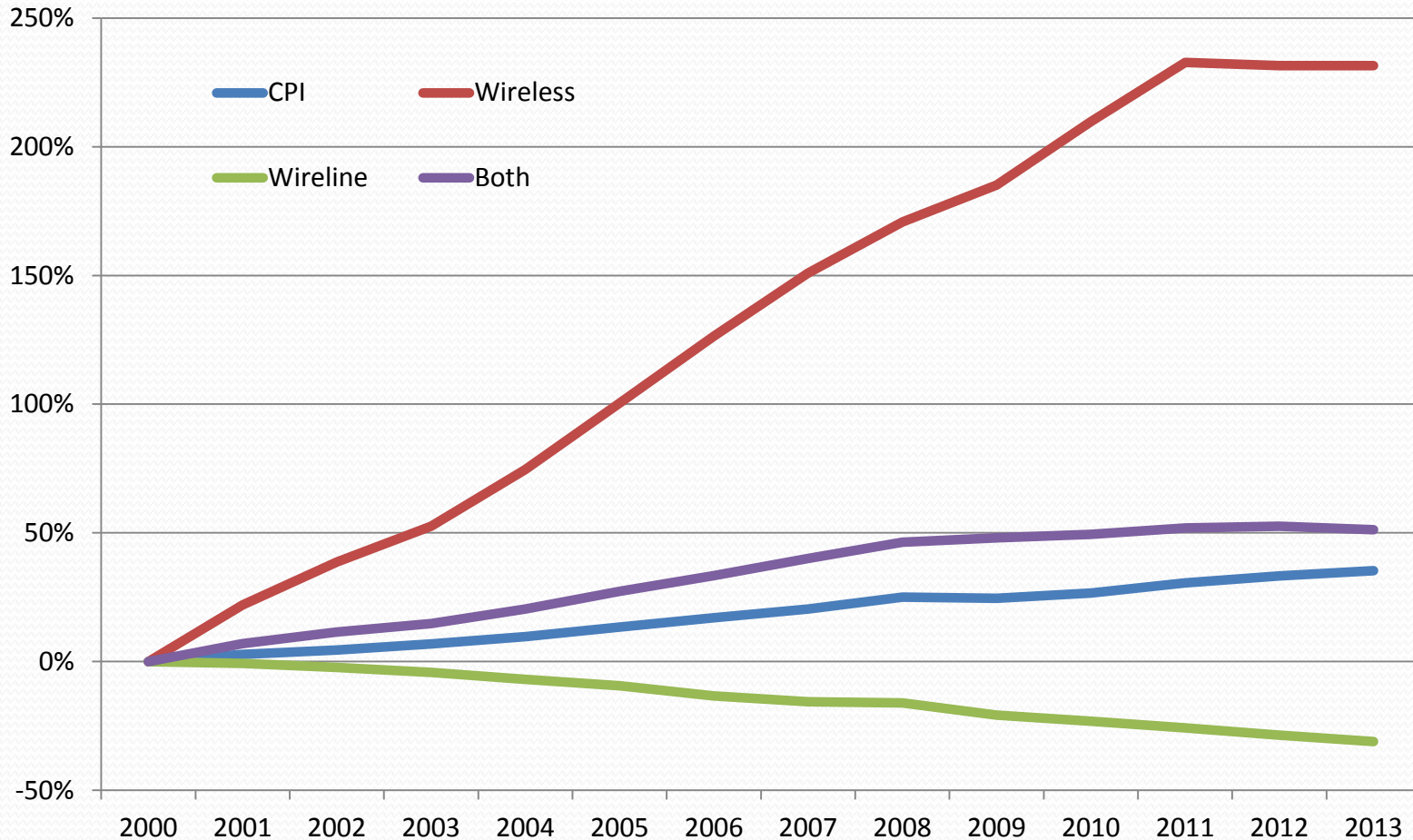
Utah

West Virginia

Why So Much 911 Fee Activity?

- Trends in wireless and wireline subscribership mean that rapid funding growth from 2000 to 2010 has ended
- States and PSAPs have expanded the eligible uses for 911 fee revenues, placing additional pressure on 911 funds
- Some states have “raided” 911 fund balances due to budget pressures; these funds were being banked to fund capital costs for new technologies like Next Generation 911
- NG911 and “FirstNet” may seek new funding without a fundamental examination of the cost structure of the 911 program

Telephone Subscriber Growth vs. CPI (Cumulative Percentage Growth Since 2000)



NG911 Funding

“Next Generation” 911 (NG911)

- Internet Protocol systems that allow text, voice, video, and other data to be transmitted to and from 911 centers and first responders
- Improved emergency response
- Potential to allow for centralization and consolidation of 911 centers

NG911

- IP-enabled NG 911 systems allow for flexibility, scalability, redundancy that reduces the need for 911 call centers in every county
- Resistance to consolidation by local governments
- Once transition to NG911 is complete, there should be operational cost savings

FirstNet

- Nationwide, interoperable public safety broadband communications network, separate from public networks
- Feds providing funding and spectrum but states may also incur costs
- If states choose to “opt out” they will need funds to build their own networks
- Utah legislation to create a new “Emergency Services Telecommunications Charge” of 71 cents per month to build a state radio network did not pass; fee would have been in addition to the existing statewide 70 cents per month 911 fee

Summary of Funding Pressures

- Wireless subscribership flat & landline declining
- State statutes have difficulty keeping up with new technologies, resulting in disparities in treatment of consumers
- NG 911 and possible FirstNet funding pressures
- Telecom consumers are already bearing an unfair burden for funding federal, state, and local programs

CTIA 911 Funding Principles

- Any fees should be borne by end-users
- Single, state-administered, state-collected fee
- Rate should be set by legislature
- Funds should be spent only on 911 systems
- Locals PSAPs should be subject to audits and legislative review
- PSAPs should seek ways to improve efficiency, lower costs before seeking rate increases
- Ultimately, funding should be shifted to the General Fund

Funding Options

Status quo – raise 911 fees on existing customers

- Pro
 - Known revenue source, no major policy changes needed
- Con
 - Consumers already burdened
 - Exacerbate consumer shift to alternatives
 - Equity issues

Funding Options

Eliminate 911 fees and fund the system from general fund appropriations

- Pros
 - Improved efficiency from a statewide system
 - More accountability for expenditures
 - Broad based revenue source avoids fees trying to “chase technology”
- Cons
 - 911 has to compete with other programs

Funding Options – FCC Task Force

The Task Force on Optimal Public Safety Answering Point Architecture (TFOPA): <https://www.fcc.gov/about-fcc/advisory-committees/general/task-force-optimal-public-safety-answering-point>

- Working Groups: Cybersecurity, PSAP Architecture, and Optimal Resource Allocation (Working Group 3)
- Working Group 3 Chaired by WA PUC Chair Phil Jones
 - Extremely limited telecom industry representation, no legislative participation
 - Working Group 3 refused input, refused changes or amendments to document, closed process
- The work of the Task Force focused on three topics:
 - Prepaid 911 revenues
 - Broadband Connection Fee
 - Broadband Capacity Based Fee

TFOPA WG3 Funding Options

- **Prepaid 911 Revenues:** Early Task Force reports contained dubious statements inferring that the prepaid POS legislation was a failure. The Final Report recommended that states that have not adopted the report should but that further study was needed to verify that revenues are in line with expectations.
- **Network Provider Fee:** Recommended that network providers pay a 911 fee for each network or broadband connection.
- **Broadband Connection Fee:** Charge 911 fees based on upstream/bandwidth capacity. Higher broadband users would pay multiple 911 fees.
 - Pros
 - Large new untapped revenue source
 - No duplicative 911 fees for multiple devices accessing broadband connection.
 - Cons
 - May violate ITFA
 - Makes broadband access more expensive
 - Broadband connections by themselves can't access 911
 - There is no relationship between broadband capacity and 911 system

What's Next for TFOPA?

Local State Government Advisory Committee on 911 (LSAG):

- Intent is to create a “Core Cadre” of technical 911 experts who can advise over the medium to long term;
- Based on Local, State Government, and FCC officials;
- Active role as contributors by industry, vendors, and others in the 911 ecosystem;
- Subject to the usual FACA rules of the FCC;
- Initial scope of work:
 - Enhanced Quality of Data (For Net 911 Reports)
 - Study further the Network Connection Fee
 - Study further the Pre-Paid Wireless issues
 - Assist in Outreach and Education

Summary

- 911 fee increases may not be sustainable as technology changes
- Shifting funding to a new tax on broadband capacity would be unpopular, unfair, and may violate ITFA
- Rather than imposing a new round of 911 fee increases, states should consider shifting funding for the 911 system to general fund revenue sources

Revenue Neutral Sales Tax Rate Increments to Replace 911 Fee Revenue

<u>State</u>	<u>Current 911 Fee</u>	<u>911 Revenue</u>	<u>Sales Tax Revenue</u>	<u>Sales Tax Revenue Per 1% Tax Rate</u>	<u>Current Sales Tax Rate</u>	<u>Revenue Neutral Sales Tax Rate</u>
Tennessee	\$1.16 / mo.	\$ 102,500,000	\$ 6,378,049,430	\$ 911,149,919	7.00%	0.11%
North Carolina	\$0.60 / mo.	\$ 73,774,000	\$ 5,646,647,460	\$ 1,188,767,886	4.75%	0.06%
Florida	\$0.40 / mo.	\$ 108,300,000	\$ 22,749,000,000	\$ 3,791,500,000	6.00%	0.03%
Pennsylvania	\$1.65 / mo.	\$ 307,000,000	\$ 9,782,843,180	\$ 1,630,473,863	6.00%	0.19%
Texas	\$0.50 / mo.	\$ 213,215,483	\$ 27,385,709,000	\$ 4,381,713,440	6.25%	0.05%
Virginia	\$0.75 / mo.	\$ 55,213,204	\$ 3,662,417,350	\$ 732,483,470	5.30%	0.08%
Washington	\$0.95 / mo.	\$ 95,887,087	\$ 8,273,522,600	\$ 1,272,849,631	6.50%	0.08%
Massachusetts	\$1.25 / mo.	\$ 124,475,492	\$ 5,684,137,400	\$ 909,461,984	6.25%	0.14%

Presenter Contact Information

Scott Mackey, Partner
Managing Partner
KSE Partners LLP

mackey@ksepartners.com

802 778 0236 (desk)

802 236 7725 (wireless)

Kathleen Kittrick
Director
State Govt. Affairs
Verizon

kathleen.kittrick@verizon.com

202 515 2482 (desk)